

# Where Is My QE3? And Nice Rebound Anyway, Thanks.

1280 on the S&P might dispel fears of recession. That would be a false comfort. Markets do not move in straight lines. 2002-2007 was a market in exuberant mood. 2008-2009 was a market in panic and fear that the world as we knew it would end. 2009-2010 was relief, that the world would not end after all. In 2011, reality is sinking in and markets are finding lower levels but not with the lack of liquidity and ferocity that we saw in 2008.

The Fed has cleverly avoided announcing further extraordinary measures this weekend, mainly because its arsenal is bare, and instead hinted that its arsenal was not bare and that it was ready to act. 'If not now then when?' would have been an awkward question.

The government has reached its budgetary and thus fiscal limits. It cannot stimulate the economy on the demand side any further. Liquidity is ample and the yield curve is flat. There is no need for any more buying of US treasuries. A rebalancing of the Fed's balance sheet swapping short for long dated treasuries leaving the size of the balance sheet unchanged would have little impact since the curve is already flat. What else can the Fed buy? More MBS? But the supply has dried up. Corporate bonds? But the bond market is open. Equities? Interesting idea but politically infeasible. That would be a de facto mass nationalization of the private sector that would have the Chinese sniggering. Houses? Impossible. Useful but impossible. The floor it would put under collateral values supporting mortgages, the direct price support would improve perceived household wealth and general sentiment. It is unlikely that the politicians or the economists would support such a move.

So, an empty arsenal. And a reassuring statement backed not by gold but by bravado, is all markets got.

Yet markets rose, in a clear sign that they were in heavily oversold territory. 1280 on the S&P? Easy. Beyond that lies 1000 or worse, 950. If fundamentals are any guide.

The case for being long long dated puts and financing them with written short dated puts is becoming more compelling. (This should be done slightly short of delta and long of vega. The gamma is going to vary with spot and time...) To this observer anyway.